



**THE BUDIMEX GROUP**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE BUDIMEX GROUP**

**for the first half of 2021**

**TABLE OF CONTENTS**

<b>1</b>	<b>BUSINESS ENVIRONMENT .....</b>	<b>3</b>
1.1	General market condition.....	3
1.2.	Market development prospects.....	3
<b>2</b>	<b>SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2021 .....</b>	<b>5</b>
2.1	Major construction contracts concluded by the Budimex Group companies .....	5
2.2	Risk factors.....	5
<b>3</b>	<b>FINANCIAL SITUATION .....</b>	<b>6</b>
3.1	Key economic-financial data of the Budimex Group .....	6
3.2	Statement of Cash Flows.....	9
3.3	Finance management in the Budimex Group .....	9
3.4	Contingent liabilities and contingent receivables of the Budimex Group .....	10
<b>4</b>	<b>OTHER INFORMATION.....</b>	<b>11</b>
4.1	The shareholding structure .....	11
4.2	The Management and Supervisory Board.....	11
<b>5</b>	<b>REPRESENTATIONS OF MANAGEMENT BOARD.....</b>	<b>12</b>

## 1 BUSINESS ENVIRONMENT

### 1.1 General market condition

With the improvement of the epidemiological situation in Poland and lifting of restrictions, the economic climate has been gradually recovering. The improvement of economic sentiment among businesses results from the successive increase in demand for goods and services. However, some businesses have a very limited ability to recover from the losses caused by the economic crisis. Important factors limiting the possibility to expand the operation scale of companies are the difficulty in attracting employees and delays in deliveries of raw materials. In the next months, the economic situation will strongly depend on the development of the pandemic situation and on decisions to reintroduce restrictions.

According to the estimates of the Central Statistical Office (GUS), the decrease in the gross domestic product (GDP) in the first quarter of 2021 amounted to 0.9% year to year, in comparison with an increase of 2.0% observed in the similar period of the previous year. In June 2021, the unemployment rate was 6.0%, with 6.1% in the similar period of the previous year. In addition, in recent months, a significant increase in the consumer price index has been observed, which in June 2021 amounted to 4.4% year to year, exceeding the mid-term inflation target of the National Bank of Poland (NBP).

In comparison to other sectors of the economy, restrictions related to the COVID-19 pandemic had a relatively small impact on business activity in the construction sector. The value of construction and assembly production sold (at current prices) in the first half of 2021 was on the same level as in the comparable period of the previous year. In the civil engineering segment, an increase by 3.2% was recorded in comparison to the previous year. The positive economic climate in this segment was influenced by a significant increase in the construction and assembly production sold in the subsegment of local pipelines (by 19.1% year to year). Sales of construction and assembly production in the residential construction segment increased by 3.8% in comparison to the first half of 2020. A negative dynamic was recorded in non-residential construction (a drop by 6.7% in comparison to the similar period of 2020). Despite minor fluctuations in construction production in the first two quarters of 2021, the economic climate index in the construction sector improved significantly. In June 2021, it was -5.5, compared to -25.9 points a year earlier.

In the first quarter of this year, the housing market was still highly active. The high demand for apartments is related to the very good situation of employees on the labour market, which results from the low unemployment level, the relatively low cost of mortgages, and the comparatively high investment attractiveness of the housing market due to low interest rates. In consequence, the demand for apartments remains much higher than the supply. According to NBP's data, in the first quarter of 2021, offer and transaction prices of apartments increased both on the primary (11.7% and 6.7% year to year, respectively) and secondary market (8.0% and 7.8% year to year, respectively). The increase in the average apartment price on the primary market results also from the limited availability of new land for investments and from the entry into force of regulations ordering construction of houses which meet stricter energy standards.

The impact of Covid 19 pandemic has been minor in the waste management market, where the amount of waste generated by large metropolitan areas and industrial facilities has slightly declined during the initial phase of the shutdown. In the road infrastructure maintenance market, the impact of the pandemic was also insignificant and was mainly limited to changes in the way how companies providing services organize their work.

### 1.2. Market development prospects

The economic situation in Poland is strongly related to the course of the COVID-19 pandemic. According to macroeconomic forecasts published by NBP in July 2021, in the nearest future, Polish economy will be developing very quickly. The increase in GDP in Poland in 2021 and 2022 will amount to 5.0% and 5.4% year to year, respectively. According to NBP's projections, the average annual inflation is estimated at 4.2% and at 3.3% in 2021 and 2022, respectively. The average unemployment rate estimated by NBP should be at 3.2% in 2021 and at 2.9% in 2022. It is assumed that in each subsequent quarter of 2023, the unemployment rate should drop systematically, to 2.3% in the fourth quarter.

The presently observed decrease in the number of new tenders is related to the introduction of a new EU perspective. The value of the EU budget for the years 2021-2027 will amount to EUR 1 074 billion. In addition, the EU has decided to create a special recovery package, to support member countries affected by the COVID-19 pandemic. The fund named Next Generation EU consists of loans in the amount of EUR 360 billion and subsidies amounting to EUR 390 billion. The value of EU funds allocated for Poland within the framework of the budget for the years 2021-2027 will amount to almost EUR 108 billion, in comparison to EUR 117 billion (in constant prices of 2018), which Poland received as part of the previous perspective. In addition, within the framework of the Reconstruction Fund, Poland will get EUR 23.9 billion in subsidies and EUR 34.2 billion in low-interest loans. An important element of the future financial perspective will again be the Operational Programme Infrastructure and Environment, worth EUR 25.1 billion. As of the end of July 2021, the European Commission has not yet approved the reconstruction plan presented by the Polish government.

The pandemic did not have a significant impact on the number of calls for tenders and contracts signed by GDDKiA. The climate among contractors in the area of large road projects is optimistic. The government has developed a draft resolution for the National Road Construction Programme (PBDK) until 2030. Construction of highways and expressways with the total length of about 2 thousand kilometres is planned, as well as construction of 28 ring roads. Expenditure of the National Road Fund (KFD) for investment tasks should amount to PLN 258 billion. This amount is to be financed from the next EU financial perspectives and from the transfer of a part of the budget of the currently executed National Road Construction Programme 2014-2023. In January 2021, GDDKiA presented the most advantageous options of corridors for the planned S10 sections and the Warsaw Metropolitan Area Ring Road of S or A class. The most advantageous option for the S10 section, with the estimated construction cost of PLN 4.7 billion, is the 100 km long section between Włocławek Północ – Nacpolsk junctions. The most advantageous option for the S class section of the Warsaw Metropolitan Area Ring Road, with the estimated construction cost of PLN 10.9 billion, is the 165 kilometre long section between Wiskitki – Dębe Wielkie junctions. The most advantageous option for an A class road, with the estimated construction cost of PLN 7.5 billion, is the 98 kilometre long section between Wiskitki – Dębe Wielkie junctions.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

Several large tenders will be announced already this year for construction of a transport corridor between Northern and Southern Europe, the Via Carpatia route. On the territory of Poland, the Via Carpatia consists of the following sections: S61, S16, S19. By the end of the year, the government plans to issue a call for tenders for Via Carpatia sections with the total length of 105.5 kilometres. In July 2021, a contract for the S19 section between Miejsce Piastowe and Dukla was signed. The construction of the 10.1 kilometre long section will cost PLN 479 million. In July 2021, also a call for tenders was issued to select a contractor for the S10 section between Toruń Zachód and Toruń Południe junctions. This means that GDDKiA has already issued calls for tenders for all sections of the route between Bydgoszcz and Toruń. Within the next few years, a significant part of road investments will result from execution of the 100 Ring Roads Construction Plan (PB100), which assumes construction of 820 kilometres of roads, worth PLN 28 billion. Currently, 11 sections with the value of PLN 1.7 billion are under construction.

In the first half of 2021, within the framework of the PBDK plan, GDDKiA signed 29 contracts for 376 kilometres of roads, with the gross value of PLN 10.2 billion. At the end of the first half of 2021, calls for tenders were issued for execution of 20 tasks included in PBDK, as well as 3 ring roads within the scope of the 100 Ring Roads Construction Programme. The total value of those tasks is estimated at PLN 12.0 billion. For 2021, GDDKiA has planned to issue calls for tenders for construction of 680 kilometres of roads, with the estimated value of PLN 17.6 billion. In spite of the increase in prices of construction materials, the average value of the least expensive bid in tender procedures held by GDDKiA dropped in comparison to 2020 from 80.8% to 71.4%. GDDKiA has informed that it is the major beneficiary of the Operational Programme Infrastructure and Environment 2014-2020. As many as 71 out of 93 contracts for investments have been signed already. So far, the value of financing from UE funds amounts to PLN 37.9 billion, while the total amount of funds available to GDDKiA is PLN 43.3 billion.

In view of the significant increase in the prices of raw materials and the average salary in the economy, the council of experts to the Minister of Infrastructure will analyze the possibility of increasing the contract valorization limit, which is currently 5% of the contract value, and increasing the share of the contract portion subject to valorization from the current 50%.

Despite ambitious plans concerning infrastructure investments on the railway market, this year, few calls for tenders have been issued. Initially, PKP PLK announced an investment plan for 2021 worth PLN 17.0 billion, however, according to the recent data, the value of calls for tenders issued in 2021 will amount to PLN 13.0 billion at the maximum. By the end of this year, PKP PLK intends to issue calls for tenders worth PLN 10.0 billion. The decrease in the investment scale is related to the uncertainty about obtaining EU funds within the framework of the 2021-2027 perspective. Furthermore, the European Commission has expressed reservations as to the Polish special purpose acts, which limit the possibility to suspend investments because of a significant risk of a negative impact on the environment. However, development perspectives for the railway market are optimistic. According to PKP PLK, in 2019, investment expenditure was executed on a level close to PLN 10.8 billion. Therefore, PKP PLK failed to meet investment plans which assumed expenditure at the level of PLN 15.2 billion. As of the end of June 2021, about 93% of projects of the "National Railway Programme until 2023" (KPK) have been or are being executed. According to announcements of the president of PKP PLK, in the next years, investment expenditure will increase to a dozen or so billion annually. In July this year, the Management Board of PKP PLK adopted "Investment targets for the years 2021-2030, with the perspective until 2040". There are 384 construction investments listed with the estimated value of over PLN 250 billion. Investment projects of PKP PLK are to be partially funded from the National Reconstruction Plan. In the first half of 2021, within the framework of large tasks of PKP PLK, bids were opened only in one procedure – for renovation of the Białystok – Elk railway line. In the same period, within the scope of large railway contracts, 2 contracts were signed with the total value of PLN 240 million. In comparison, the value of contracts signed in the first half of 2020 amounted to PLN 5.0 billion net and was comparable to the value of contracts signed in the first half of 2019.

In the years 2021-2022, one can expect the positive economic climate on the GDDKiA market to continue. Due to delays in issuing of new calls for tenders by PKP PLK, the order portfolio of construction companies focused on railway construction can be put under pressure. The situation in the area of building construction depends largely on the development of the COVID-19 pandemic and the duration of the transitional period between the two financial perspectives. Investment decisions of private investors are made based on assessment of the current and future market situation. There are very good perspectives for the development of the energy market, in particular with regard to Renewable Energy Sources, as a result of the current decarbonization policy. The major risk for economic entities consists in possible problems with profitability as a result of the cost inflation, which has been growing for several quarters now.

In December 2020, the company Centralny Port Komunikacyjny (Central Airport and Railway Hub, CPK) signed a contract for strategic consulting with Incheon Airport, one of the largest airports in the world. Until July 2021, CPK announced winning tenders in several important procedures. The company Netherlands Airport Consultants shall execute a master plan, which according to initial assumptions should have been ready in 2020. CPK also managed to select contractors to develop technical, economic and environmental studies for several planned high speed railway lines. Simultaneously, the process of purchase of lands in the area of the planned airport is being conducted. The total cost of the project is estimated at PLN 30-35 billion, and the launch of CPK is planned for 2027.

The road infrastructure maintenance market has very good development prospects. By the end of this year, the GDDKiA will announce 96 tenders for the maintenance of national roads, worth PLN 3.5 billion. For 2022, GDDKiA plans to announce 88 tenders with a value of PLN 2.1 billion. In the near future, the waste management sector in Poland is likely to develop dynamically due to the increasingly stringent EU requirements for waste disposal. New regulations will require wider processing of waste and increasing the level of its recovery. In 2020, 25.7% of municipal waste in Poland was recycled, while 44% of collected municipal waste went to landfills. By 2035, the value of the recycled fraction must increase to at least 65%, while the percentage of landfilled waste will not exceed 10%. According to the estimates of the Jagiellonian Institute, in 2019 the value of the waste management sector was PLN 15.3 billion, while the value of this market for 2024 is estimated at PLN 20.9 billion.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

**2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2021****2.1 Major construction contracts concluded by the Budimex Group companies**

Contract date	Customer	Contract value for the Budimex Group (in PLN thousand)	Type of construction
2021-04-16	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Gdańsku	581 439	Construction of the Tri-City Metropolis ring road. Task 1: Chwaszczyno junction (without the junction) – Żukowo junction (without the junction)
2021-04-20	Urząd Morski w Gdyni	466 727	Construction of a waterway connecting the Vistula Lagoon with the Gdańsk Bay - Part II
2021-05-14	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Białymstoku	202 558	Design and Construction of the Suchowola Ring Road along National Road No 8
2021-03-23	Vastint Poland Sp. z o.o.	190 471	Construction of office and service buildings and residential and service buildings with an underground garage at the junction of Waszyngtona i Hryniewickiego streets in Gdynia – Waterfront Phase 2

**2.2 Risk factors**

The Budimex Group is exposed to various types of financial risk: currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The inherent risk of conducting business activities is the credit risk. Despite implementation of restrictive control procedures for evaluation and monitoring of the financial standing of contractors, the risk of investors insolvency still exists.

Delays in timely repayment of debt may have adverse effects on the financial results of the Group and result in necessity to create impairment write-downs against receivables or to finance business from external debt.

The construction contracts are performed in specific technical and economic conditions which have an effect on the level of margin realized. The Budimex Group companies which render construction services, monitor technical, organizational, legal and financial risks related to planning process and progress on respective contract works. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third-party liability risks), it is possible that certain factors may occur that will cause that contracts will be performed with a lower margin than initially planned. Such factors mainly concern:

- increase in prices of construction materials, energy and oil-derivatives,
- increase in costs of subcontractor services,
- delays in timely performance or insufficient quality of subcontracted works,
- lack of qualified employees and increase in employment costs,
- delays in obtaining relevant administrative decisions,
- changes in the scope of work or technologies as agreed in the contracts,
- unfavorable weather or land conditions.

The direction and pace of the development of the COVID-19 epidemic as well as the related activities and administrative decisions may significantly affect the implementation of construction contracts, thus affecting the financial results of the Group's companies.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

**3 FINANCIAL SITUATION****3.1 Key economic-financial data of the Budimex Group****Consolidated statement of financial position of the Budimex Group**

The main items of the consolidated statement of financial position of the Budimex Group as at 30 June 2021, compared to 31 December 2020, are presented in the table below:

<b>ASSETS</b>	<b>30.06.2021</b>	<b>31.12.2020</b>	<b>Change</b>	<b>Change %</b>
<b>Non-current assets</b>	<b>1 545 952</b>	<b>1 536 267</b>	<b>9 685</b>	<b>0.6%</b>
Property, plant and equipment	528 585	548 812	(20 227)	(3.7%)
Investment properties	-	9 876	(9 876)	(100.0%)
Intangible assets	154 173	162 030	(7 857)	(4.8%)
Goodwill of subordinated entities	168 508	168 508	-	0.0%
Investments in equity accounted entities	2 288	2 221	67	3.0%
Investments in equity instruments	10 257	6 922	3 335	48.2%
Retentions for construction contracts	84 631	40 843	43 788	107.2%
Trade and other receivables	27 601	28 550	(949)	(3.3%)
Receivables from service concession agreement	46 643	46 654	(11)	0.0%
Other financial assets	1 340	-	1 340	100.0%
Deferred tax assets	521 926	521 851	75	0.0%
<b>Current assets</b>	<b>5 220 096</b>	<b>5 925 973</b>	<b>(705 877)</b>	<b>(11.9%)</b>
Inventories	417 660	1 998 255	(1 580 595)	(79.1%)
Trade and other receivables	1 022 761	918 039	104 722	11.4%
Retentions for construction contracts	91 527	28 770	62 757	218.1%
Valuation of construction contracts	723 219	594 315	128 904	21.7%
Current tax assets	1 048	338	710	210.1%
Other financial assets	1 713	1 858	(145)	(7.8%)
Cash and cash equivalents	2 962 168	2 384 398	577 770	24.2%
<b>TOTAL ASSETS</b>	<b>6 766 048</b>	<b>7 462 240</b>	<b>(696 192)</b>	<b>(9.3%)</b>

As at 30 June 2021, consolidated total assets decreased by PLN 696 192 thousand compared to 31 December 2020, mainly due to a 11.9% decrease in the current assets (PLN 705 877 thousand) and a 0.6% increase in the value of non-current assets (PLN 9 685 thousand).

**Non-current assets:**

Change in the value of non-current assets at 30 June 2021 compared to 31 December 2020 was caused mainly by:

- a decrease in the balance of property, plant and equipment by PLN 20 227 thousand including: decrease due to depreciation of property, plant and equipment in the amount of PLN 63 207 thousand and PLN 9 427 thousand as a result of sale of Budimex Nieruchomości Sp. z o.o. In turn, the increase in the balance was due to the purchase and lease of property, plant and equipment in the amount of PLN 52 881 thousand,
- a decrease in the balance of investment properties by PLN 9 876 thousand as a result of the sale of Budimex Nieruchomości Sp. z o.o.,
- an increase in the balance of retentions for construction contracts by PLN 43 788 thousand mainly by invoicing works with deferred payment terms.

**Current assets:**

Simultaneously, current assets decreased by PLN 705 877 thousand, mainly due to a decrease in the balance of inventories by PLN 1 580 595 thousand (including PLN 1 734 911 thousand due to sale of Budimex Nieruchomości Sp. z o.o.) and increase in the balance of cash and cash equivalents by PLN 577 770 thousand, predominantly as a result of the sale of Budimex Nieruchomości Sp. z o.o. and the payment of dividends.

Other changes in the current assets related to:

- an increase in the balance of trade and other receivables by PLN 104 722 thousand mainly as a result of seasonal greater involvement in contracts with a non-standard invoicing scheme;
- an increase in valuation of construction contracts by PLN 128 904 thousand, as a result of seasonally larger scale of activity in the second quarter, which translates into a need for a temporary commitment of own funds due to a later moment of invoicing the works to investors,
- an increase in the balance of retentions for construction contracts by PLN 62 757 mainly by invoicing works with deferred payment terms.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

EQUITY AND LIABILITIES	30.06.2021	31.12.2020	Change	Change %
<b>Shareholders' equity attributable to the shareholders of the Parent Company</b>	<b>1 441 171</b>	<b>1 149 351</b>	<b>291 820</b>	<b>25.4%</b>
Issued capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	(139)	(139)	-	0.0%
Cumulative translation differences	3 440	6 473	(3 033)	(46.9%)
Retained earnings	1 204 859	910 006	294 853	32.4%
<b>Equity attributable to non-controlling interests</b>	<b>34 663</b>	<b>37 920</b>	<b>(3 257)</b>	<b>(8.6%)</b>
<b>Total equity</b>	<b>1 475 834</b>	<b>1 187 271</b>	<b>288 563</b>	<b>24.3%</b>
<b>Non-current liabilities</b>	<b>1 030 936</b>	<b>1 139 735</b>	<b>(108 799)</b>	<b>(9.5%)</b>
Loans, borrowings and other external sources of finance	181 580	261 663	(80 083)	(30.6%)
Retentions for construction contracts	231 232	240 263	(9 031)	(3.8%)
Provisions for long-term liabilities and other charges	579 090	593 398	(14 308)	(2.4%)
Retirement benefits and similar obligations	17 620	18 505	(885)	(4.8%)
Other financial liabilities	20 248	21 264	(1 016)	(4.8%)
Deferred tax liabilities	1 166	4 642	(3 476)	(74.9%)
<b>Current liabilities</b>	<b>4 259 278</b>	<b>5 135 234</b>	<b>(875 956)</b>	<b>(17.1%)</b>
Loans, borrowings and other external sources of finance	88 449	189 067	(100 618)	(53.2%)
Trade and other payables	1 633 906	1 371 850	262 056	19.1%
Retentions for construction contracts	201 591	216 458	(14 867)	(6.9%)
Provisions for construction contract losses	413 129	310 441	102 688	33.1%
Valuation of construction contracts	1 285 147	1 302 164	(17 017)	(1.3%)
Deferred income	290 584	1 469 626	(1 179 042)	(80.2%)
Provision for short-term liabilities and other charges	232 966	227 111	5 855	2.6%
Current tax liability	110 569	44 815	65 754	146.7%
Retirement benefits and similar obligations	1 611	1 623	(12)	(0.7%)
Other financial liabilities	1 326	2 079	(753)	(36.2%)
<b>Liabilities</b>	<b>5 290 214</b>	<b>6 274 969</b>	<b>(984 755)</b>	<b>(15.7%)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6 766 048</b>	<b>7 462 240</b>	<b>(696 192)</b>	<b>(9.3%)</b>

Equity and liabilities:

On the equity and liabilities' side, the main changes related to the following:

- a decrease in the balance of non-current liabilities by PLN 108 799 thousand, mainly as a result of:
  - a decrease in the balance of loans, borrowings and other external sources of finance by PLN 80 083 thousand, mainly as a result of the repurchase of leased fixed assets of leasing by Budimex Kolejnictwo SA,
  - a decrease in the balance of provisions for long-term liabilities and other charges by PLN 14 308 thousand,
  - a decrease in the balance of retentions for construction contracts by PLN 9 031 thousand.
- a decrease in the balance of current liabilities by PLN 875 956 thousand, where the most important changes referred to:
  - an increase in the balance of trade liabilities and other liabilities by PLN 262 056 thousand, mainly as a result of seasonality of construction activity (the highest revenues, and therefore costs, are realized in the second and third quarter),
  - a decrease in the balance of deferred income by PLN 1 179 042 thousand, mainly as a result of the sale of Budimex Nieruchomości Sp. z o.o.,
  - a decrease in the balance of loans, borrowings and other external sources of finance by PLN 100 618 thousand, including PLN 133 765 thousand as a result of the sale of Budimex Nieruchomości Sp. z o.o.,
  - an increase in the balance of provisions for construction contract losses by PLN 102 688 thousand due to the newly identified risk of an increase in cost of materials (in particular steel) and labor.



(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

**Consolidated income statement of the Budimex Group**

As a result of conclusion of the conditional sale agreement of all shares in the subsidiary Budimex Nieruchomości Sp. z o.o. on 22 February 2021, and then the disposal agreement on 24 May 2021, the Group presents the entire segment "real estate development and management" as discontinued operations. In line with IFRS 5, the 2020 data was restated.

INCOME STATEMENT	01.01 - 30.06.2021	01.01 - 30.06.2020 <i>restated</i>	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	3 241 092	3 460 165	(219 073)	(6.3%)
Cost of finished goods, services, goods for resale and raw materials sold	(2 865 447)	(3 207 039)	341 592	(10.7%)
<b>Gross profit on sales</b>	<b>375 645</b>	<b>253 126</b>	<b>122 519</b>	<b>48.4%</b>
Selling expenses	(5 086)	(5 318)	232	(4.4%)
Administrative expenses	(120 010)	(110 561)	(9 449)	8.5%
Other operating income	43 907	50 987	(7 080)	(13.9%)
Other operating expenses	(18 066)	(88 547)	70 481	(79.6%)
<b>Operating profit</b>	<b>276 390</b>	<b>99 687</b>	<b>176 703</b>	<b>177.3%</b>
Finance income	5 271	15 872	(10 601)	(66.8%)
Finance costs	(22 130)	(24 448)	2 318	(9.5%)
Shares in profits of equity accounted companies	67	42	25	59.5%
<b>Gross profit</b>	<b>259 598</b>	<b>91 153</b>	<b>168 445</b>	<b>184.8%</b>
Income tax	(51 154)	(26 331)	(24 823)	94.3%
Net profit from continuing operations	208 444	64 822	143 622	221.6%
Net profit/ (loss) from discontinued operations	520 508	49 669	470 839	948.0%
<b>Net profit for the period</b>	<b>728 952</b>	<b>114 491</b>	<b>614 461</b>	<b>536.7%</b>
<i>of which:</i>				
<b>Attributable to the shareholders of the Parent, of which:</b>	<b>721 205</b>	<b>110 574</b>	<b>610 631</b>	<b>552.2%</b>
from continuing operations	200 697	60 905	139 792	229.5%
from discontinued operations	520 508	49 669	470 839	948.0%
<b>Attributable to non-controlling interests, of which</b>	<b>7 747</b>	<b>3 917</b>	<b>3 830</b>	<b>97.8%</b>
from continuing operations	7 747	3 917	3 830	97.8%
from discontinued operations	-	-	-	-

In the 6-month period ended 30 June 2021 the Budimex Group earned sales revenue of PLN 3 241 092 thousand which means a 6.3% decrease on the corresponding period of 2020.

In the first half of 2021 construction-assembly production in Poland expressed in current prices did not change (an increase by 2.8% in fixed prices) compared to the corresponding period of the prior year, while sales of the construction segment of the Budimex Group on the home market were down 9.1% on the corresponding period.

Gross profit on sales in the first half of 2021 was PLN 375 645 thousand, while in the corresponding period of the prior year it amounted to PLN 253 126 thousand. The gross sales profitability ratio was therefore 11.6% in the first half of 2021, while in the first half of 2020 was 7.3%.

In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Provisions for construction contract losses“. As at 30 June 2021, the balance of the provision for contract losses amounted to PLN 413 129 thousand. In the first half of 2021, the balance of provision for construction contract losses increased by PLN 102 688 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2021 the provision for warranty amounted to PLN 602 099 thousand. In the 6-month period ended 30 June 2021 the balance of the provision for warranty repaired increased by PLN 10 621 thousand.

Selling expenses decreased in the first half of 2021 by PLN 232 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 9 449 thousand higher than expenses incurred in the corresponding period of 2020. The share of selling and administrative expenses in total sales was 3.9% in the first half of 2021, while in the corresponding period of 2020 was 3.3%.

Other operating income for the first half of 2021 was PLN 43 907 thousand (PLN 50 987 in the corresponding period of the prior year) and comprised: penalties/ compensations awarded in the amount of PLN 20 795 thousand, reversal of impairment write-downs against receivables amounting to PLN 9 995 thousand and also gain from reversal of provisions for compensations and liquidated damages in the amount of PLN 2 208 thousand. The gain on settlement of FX forward derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 2 097 thousand. Additionally, in the period of six months of 2021 the Group companies disposed of non-financial non-current assets, of which they earned PLN 5 634 thousand of profit.

Other operating expenses for the first half of 2021 amounted to PLN 18 066 thousand (PLN 88 547 thousand in the corresponding period of the prior year) and comprised: PLN 3 343 thousand related to creation of write-off for receivables, PLN 11 096 thousand



(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

related to compensations and contractual penalties paid out and PLN 1 183 thousand – to donations. The loss on valuation of FX forward derivative instrument contracts amounted to PLN 74 thousand.

The reported operating profit of the Group in the first half of 2021 was PLN 276 390 thousand, while it amounted to PLN 99 687 thousand in the first half of 2020. The operating profit for the first half of 2021 represented 8.5% of sales revenue, while for the corresponding period of the prior year – 2.9% of sales revenue.

In the 6-month period ended 30 June 2021 the Group incurred a loss on finance activities in the amount of PLN 16 859 thousand, while in the same period of the prior year – a loss in the amount of PLN 8 576 thousand. Finance income in the first half of 2021 represented mainly interest of PLN 1 567, profit from valuation of interest rate swap amounted to PLN 1 113 thousand, valuation of receivables from service concession agreement of PLN 1 440 thousand and foreign exchange gains of PLN 655 thousand.

Finance costs in the first half of 2021 represented, among others, interest costs of PLN 5 017 thousand, bank commissions on guarantees and loans of PLN 14 225 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 2 265 thousand. During the first half of 2021 the Group incurred a loss on realization of interest rate swap derivative instrument in the amount of PLN 416 thousand.

In the first half of 2021, the Group reported a gross profit of PLN 259 598 thousand, while in the corresponding period of the prior year – a gross profit of PLN 91 153 thousand.

Income tax for the 6-month period ended 30 June 2021 was PLN 51 154 thousand (PLN 26 331 thousand for the first half of 2020), of which:

- current tax was PLN 66 422 thousand,
- deferred tax in the amount of PLN (15 268) thousand.

The net profit attributable to the shareholders of the Budimex SA for the first half of 2021 was PLN 721 205 thousand, including PLN 200 697 thousand from continuing operations, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2020 was PLN 110 574 thousand, including PLN 60 905 thousand from continuing operations.

The net profit attributable to non-controlling interest for the first half of 2021 amounted to PLN 7 747 thousand. In the corresponding period of 2020, the net profit attributable to non-controlling interest amounted to PLN 3 917 thousand.

### **3.2 Statement of Cash Flows**

Cash and cash equivalents presented in the cash flow statement comprise cash on hand, a-vista deposits and these bank deposits which can easily be changed into known amount of cash and which incur insignificant risk of fluctuations of value.

The Group recognizes the following positions as cash of restricted use:

- securing bank guarantees,
- split payment accounts,
- cash at escrow accounts and current accounts in the part due to consortium partners.

The Budimex Group entered the year 2021 with cash on hand and cash at bank amounting to a total of PLN 2 384 398 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 302 900 thousand. Net cash flow for the first half of 2021 was positive and amounted to PLN 858 238 thousand. As at 30 June 2021 cash balance was PLN 2 962 168 thousand, of which cash of restricted use was PLN 23 127 thousand.

In the first half of 2021 the cash flows from operating activities showed a positive balance of PLN 533 286 thousand.

Cash flow from investing activities showed a positive balance of PLN 879 463 thousand, mainly as a result of the sale of Budimex Nieruchomości sp z o.o.

Cash flow from financing activities for the first half of 2021 showed a negative balance of PLN 554 511 and resulted mainly from paid dividend by Budimex SA and leasing liabilities.

### **3.3 Finance management in the Budimex Group**

In the first half of 2021 the Budimex Group operating activity cash flow was positive which is similar to the corresponding period of previous year however, distinguishes these two half year periods from previous years. Usually, the construction industry can be characterized by significant cash inflows in the year-end with negative cash flows in first half of the year when cash is consumed by expenses related to operating activity. Positive cash flow from operating activity in first half of 2021 is mainly a consequence of changes in working capital and profitable activity in the construction segment. Investment activity was the main source of the increase in cash of the Budimex Group at the end of the first half of 2021. On 24 May 2021 Budimex SA finalized the transaction of sale of shares in Budimex Nieruchomości Sp. z o.o., under which Budimex SA received cash in the total amount of PLN 1 325 788 thousand. The good financial results achieved by the key operating segments of the FBService Group companies also contributed to the increase in the cash balance in the first half of 2021. Therefore, the balance of cash and liquid financial assets of the Budimex Group as at 30 June 2021 was significantly higher than at the end of the first half of last year and amounted to PLN 2 962 168 thousand.

In line with the Group's policy, periodic cash surpluses were kept on bank deposits. Moreover, Budimex SA used surplus cash to finance its suppliers which had a positive effect on their financial liquidity and generated additional financial revenues (from discount) for Budimex SA.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

The Budimex Group reported external bank and leasing debt which as of 30 June 2021 amounted to PLN 270 029 thousand, including PLN 115 042 thousand as a result of the MSSF 16 adjustment. External bank and leasing debt, excluding the above mentioned MSSF 16 adjustment, equaled to PLN 154 987 thousand and was lower by PLN 99 505 thousand compared to 31 December 2020. The total indebtedness of the Budimex Group consists mainly of: debt of Budimex SA, Budimex Kolejnictwo SA, Mostostal Kraków SA and FBŚerwis Group companies (leasing debt financing purchases of tangible fixed assets); indebtedness of Budimex Parking Wrocław Sp. z o.o. related to bank loan financing of the concession project and a subordinated loan granted by a minority shareholder; debt of FBŚerwis Kamieński Sp. z o.o. and FBŚerwis Wrocław Sp. z o.o. from investment loans granted by the National Fund for Environmental Protection and Water Management for waste management projects. In the first half of 2021, Budimex SA did not use available credit lines. The significant decrease in the external debt of the Budimex Group in the first half of this year results mainly from: early termination and repayment by Budimex Kolejnictwo SA of the debt under 10 (ten) lease contracts for the total amount of PLN 59 238 thousand, which was financed with funds obtained from the increase in the company's capital and from a long-term loan granted to the company by Budimex SA and early termination and repayment by Budimex SA of 7 (seven) lease contracts for the total amount of PLN 10 123 thousand, aimed for the sale of fixed assets.

<b>Bank loans and borrowings and other external sources of finance:</b>	<b>30.06.2021</b>	<b>31.12.2020</b>	<b>30.06.2020</b>
- long-term	107 479	184 902	198 514
- long-term (lease liabilities - IFRS 16 adjustment)	74 101	76 761	67 126
- short-term	47 508	69 590	73 397
- short-term (lease liabilities - IFRS 16 adjustment)	40 941	119 477	108 378
<b>Total</b>	<b>270 029</b>	<b>450 730</b>	<b>447 415</b>

The following ratios represent the financing structure in the Budimex Group:

<b>Ratio</b>	<b>30.06.2021</b>	<b>31.12.2020</b>	<b>30.06.2020</b>
<b>Equity to total assets ratio (asset coverage):</b> (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.21	0.15	0.11
<b>Equity to non-current assets ratio (non-current asset coverage):</b> (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)	0.93	0.75	0.54
<b>Debt ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.79	0.85	0.89
<b>Total assets to equity ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)	3.69	5.49	8.00

As at 30 June 2021, compared to the corresponding period of the previous year and the end of 2020, all financing structure ratios improved significantly, i.e. the debt and total assets to equity ratios decreased and both equity ratios increased.

<b>Ratio</b>	<b>30.06.2021</b>	<b>31.12.2020</b>	<b>30.06.2020</b>
Current Ratio (current assets)/(current liabilities)	1.23	1.15	1.08
Quick Ratio (current assets - inventory)/(current liabilities)	1.13	0.76	0.70

The liquidity ratios of the Budimex Group as at 30 June 2021 recorded the highest levels in history. This results, to a large extent, from sale of shares in Budimex Nieruchomości Sp. z o.o. The increase in the current liquidity ratio is driven by a decrease in the short-term liabilities of the Budimex Group, while the increase in the quick ratio is a consequence of several effects, i.e. the above-described decrease in the value of short-term liabilities, significant reduction in inventories (previously the value of residential projects performed by Budimex Nieruchomości Sp. z o.o. constituted a considerable part of inventories) and increase in cash from settlement of the sale of shares transaction.

The current financial standing of Budimex Group in terms of liquidity and access to external sources of financing is good. Therefore the Management does not foresee any threats to the Group's ability to finance business activity in the second half of financial year 2021.

### 3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables, as well as sureties and guarantees granted by Budimex SA or its subsidiaries are described in note 17 of the condensed consolidated financial statements of the Budimex Group.

(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

**4 OTHER INFORMATION****4.1 The shareholding structure**

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at 30 June 2021 was as follows:

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Ferrovial Construction International SE	ordinary	12 801 654	50.14%	12 801 654	50.14%
Nationale-Nederlanden OFE	ordinary	2 353 000	9.22%	2 353 000	9.22%
Aviva OFE Aviva Santander	ordinary	2 170 000	8.50%	2 170 000	8.50%
Other shareholders	ordinary	8 205 444	32.14%	8 205 444	32.14%
<b>Total</b>		<b>25 530 098</b>	<b>100.00%</b>	<b>25 530 098</b>	<b>100.00%</b>

The above data presents the shareholding structure as at the last General Meeting of Shareholders of 20 May 2021.

**4.2 The Management and Supervisory Board****a ) Composition of the Management Board**

As at 30 June 2021, the Management Board of Budimex SA consisted of the following persons:

- Artur Popko President of the Management Board, General Director,
- Jacek Daniewski Board Member, Chief Legal and Organizational Officer
- Cezary Mączka Board Member, Chief HR Officer
- Marcin Węglowski Board Member, Chief Financial Officer

In the period from 1 January 2021 to 30 June 2021, the following changes in the composition of the Management Board took place:

- on 21 April 2021 Mr. Dariusz Blocher resigned from his position in the Management Board of the Company, effective on 19 May 2021,
- on 22 April 2021, the Supervisory Board of Budimex SA appointed Mr. Artur Popko to the position of the President of the Management Board, General Director of Budimex SA, effective on 20 May 2021.

The policies concerning the appointment or removal of members of the Management Board, and their rights, including the right to take decision on issuance or redemption of the Company shares, included in the Company's statute, did not change during the first half of 2021.

**b ) Composition of the Supervisory Board**

As at 30 June 2021, the Supervisory Board of Budimex SA consisted of the following persons:

- Marek Michałowski Chairman of the Supervisory Board
- Juan Ignacio Gaston Najarro Deputy Chairperson of the Supervisory Board
- Igor Adam Chalupec Supervisory Board secretary
- Danuta Dąbrowska Supervisory Board Member
- Dariusz Blocher Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Javier Galindo Hernandez Supervisory Board Member
- Ignacio Aitor Garcia Bilbao Supervisory Board Member
- Jose Carlos Garrido-Lestache Rodríguez Supervisory Board Member
- Artur Kucharski Supervisory Board Member

In the period from 1 January 2021 to 30 June 2021, there were the following changes in composition of the Supervisory Board:

- on 12 May 2021, Mrs. Agnieszka Słomka-Gołębiowska resigned from participation in the Supervisory Board, effective on 20 May 2021,
- on 17 May 2021 the Company received a resignation from participation in the Supervisory Board submitted by Mr. Fernando Luis Pascual Larragoiti,
- on 20 May 2021 the Ordinary General Meeting of Budimex SA appointed new members of the Supervisory Board in the persons of Mr. Dariusz Jacek Blocher and Mr. Ignacio Aitor Garcia Bilbao.

## 5 REPRESENTATIONS OF MANAGEMENT BOARD

In accordance with our best knowledge, we hereby represent that the half-year condensed consolidated financial statements of the Budimex Group and condensed separate financial statements of Budimex SA for the 6-month period ended 30 June 2021, and the comparative data were prepared in accordance with the binding accounting principles and present truly and fairly the financial position and the financial result of the Budimex Group and those of the Parent Company. The half-year Directors' Report on the activities of the Group reflects a true and fair picture of the development, achievements, risks and threats and of the financial standing of the Budimex Group and Budimex SA.

Artur Popko President of the Management Board		Cezary Mączka Board Member	
Jacek Daniewski Board Member		Marcin Węglowski Board Member	

*This is a translation of Directors' Report originally issued in Polish. In case of any inconsistencies between the Polish and English version, the Polish version shall prevail*